

# Investment Interest Expense Deduction

► Attach to your tax return.

OMB No. 1545-0191

**2005**

Attachment  
Sequence No. **51**

Identifying number

## Part I Total Investment Interest Expense

<b>1</b>	Investment interest expense paid or accrued in 2005 (see instructions)	<b>1</b>		
<b>2</b>	Disallowed investment interest expense from 2004 Form 4952, line 7	<b>2</b>		
<b>3</b>	<b>Total investment interest expense.</b> Add lines 1 and 2	<b>3</b>		

## Part II Net Investment Income

<b>4a</b>	Gross income from property held for investment (excluding any net gain from the disposition of property held for investment)	<b>4a</b>		
<b>4b</b>	Qualified dividends included on line 4a	<b>4b</b>		
<b>4c</b>	Subtract line 4b from line 4a	<b>4c</b>		
<b>4d</b>	Net gain from the disposition of property held for investment	<b>4d</b>		
<b>4e</b>	Enter the <b>smaller</b> of line 4d or your net capital gain from the disposition of property held for investment (see instructions)	<b>4e</b>		
<b>4f</b>	Subtract line 4e from line 4d	<b>4f</b>		
<b>4g</b>	Enter the amount from lines 4b and 4e that you elect to include in investment income (see instructions)	<b>4g</b>		
<b>4h</b>	Investment income. Add lines 4c, 4f, and 4g	<b>4h</b>		
<b>5</b>	Investment expenses (see instructions)	<b>5</b>		
<b>6</b>	<b>Net investment income.</b> Subtract line 5 from line 4h. If zero or less, enter -0-	<b>6</b>		

## Part III Investment Interest Expense Deduction

<b>7</b>	Disallowed investment interest expense to be carried forward to 2006. Subtract line 6 from line 3. If zero or less, enter -0-	<b>7</b>		
<b>8</b>	<b>Investment interest expense deduction.</b> Enter the <b>smaller</b> of line 3 or 6. See instructions.	<b>8</b>		

Section references are to the Internal Revenue Code unless otherwise noted.

## General Instructions

### Purpose of Form

Use Form 4952 to figure the amount of investment interest expense you can deduct for 2005 and the amount you can carry forward to future years. Your investment interest expense deduction is limited to your net investment income.

For more information, see Pub. 550, Investment Income and Expenses.

### Who Must File

If you are an individual, estate, or a trust, you must file Form 4952 to claim a deduction for your investment interest expense.

**Exception.** You do not have to file Form 4952 if all of the following apply.

- Your investment interest expense is not more than your investment income from interest and ordinary dividends minus any qualified dividends.
- You have no other deductible investment expenses.
- You have no disallowed investment interest expense from 2004.

### Allocation of Interest Expense

If you paid or accrued interest on a loan and used the loan proceeds for more than one purpose, you may have to allocate the interest. This is necessary because different

rules apply to investment interest, personal interest, trade or business interest, home mortgage interest, and passive activity interest. See Pub. 535, Business Expenses.

## Specific Instructions

### Part I—Total Investment Interest Expense

#### Line 1

Enter the investment interest expense paid or accrued during the tax year, regardless of when you incurred the indebtedness. Investment interest expense is interest paid or accrued on a loan or part of a loan that is allocable to property held for investment (as defined on this page).

Include investment interest expense reported to you on Schedule K-1 from a partnership or an S corporation. Include amortization of bond premium on taxable bonds purchased after October 22, 1986, but before January 1, 1988, unless you elected to offset amortizable bond premium against the interest payments on the bond. A taxable bond is a bond on which the interest is includible in gross income.

Investment interest expense does not include any of the following:

- Home mortgage interest.
- Interest expense that is properly allocable to a passive activity. Generally, a passive activity is any business activity in which you do not materially participate and any rental activity. See the Instructions for Form 8582, Passive Activity Loss Limitations, for details.

• Any interest expense that is capitalized, such as construction interest subject to section 263A.

• Interest expense related to tax-exempt interest income under section 265.

• Interest expense, disallowed under section 264, on indebtedness with respect to life insurance, endowment, or annuity contracts issued after June 8, 1997, even if the proceeds were used to purchase any property held for investment.

**Property held for investment.** Property held for investment includes property that produces income, not derived in the ordinary course of a trade or business, from interest, dividends, annuities, or royalties. It also includes property that produces gain or loss, not derived in the ordinary course of a trade or business, from the disposition of property that produces these types of income or is held for investment. However, it does not include an interest in a passive activity.

**Exception.** A working interest in an oil or gas property that you held directly or through an entity that did not limit your liability is property held for investment, but only if you did not materially participate in the activity.

### Part II—Net Investment Income

#### Line 4a

Gross income from property held for investment includes income, unless derived in the ordinary course of a trade or business, from interest, ordinary dividends (except Alaska Permanent Fund dividends), annuities, and royalties.